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The Purpose of Makon USA (A)

Pablo Cardona
M.ª Nuria Chinchilla
Carlos Rey
John Almandoz

A year had passed since Sarah had taken charge of the general management of Makon USA, a company in upstate New York that produced and marketed machinery for the construction industry. During that time, she had tried to get to know all about the company's products and departments.

Makon was structured into three main departments (sales, technical and production) with two support areas (administration and finance, and human resources). Together with general management, the heads of these five departments made up the Management Committee, which met every two weeks.

The manufacturing and sales process began with the sales representatives, organized into three regions (Northeast, Midwest and South), who would collect the customers' demands and finalize the terms of the order. The technical department would then take up the orders and be in charge of delivery and setting up the machinery in the customers' premises. The production department —organized into seven workshops, running three shifts—would design and manufacture the machines according to the sales forecast.

In its more than 40 years of existence, the company had undergone several transformation and reorganization processes to adapt to market conditions. The company was now an industry leader due to its excellent quality of service. Furthermore, owing to its concern about safety and the environmental impact of its machinery, Makon had earned the reputation of being a socially responsible company.

This case was prepared by Pablo Cardona, professor at the Universidad Internacional de la Rioja, Professor M.ª Nuria Chinchilla, Carlos Rey, professor at the UIC Barcelona, and Professor John Almandoz. July 2021.
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IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

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From a technical perspective, the company performed flawlessly. The functions and objectives of each area were meticulously recorded in manuals and through procedures, and everything was done in a highly ordered and disciplined way. Budgets showed everything down to the smallest detail and were checked meticulously. The company's figures were closely reviewed at monthly Management Committee meetings, corrective action was taken when any deviations were detected and all items on the profit and loss account and balance sheet were studied in detail.

All these corporate virtues were largely due to the enterprise of Makon's former general manager. He had also been the company's founder and owner, with meticulous attention to detail and a strong commitment to quality and the environment. Highly respected and admired for his leadership talent and management skills, he embodied the soul of the business. However, when he reached retirement age, he was unable to find someone to replace him and, feeling that he did not have the necessary strength to carry on, he decided to sell the business.

This was the main reason why Sarah's arrival was initially welcomed. In previous few years, as the previous leader's energy waned, rumors began to spread throughout the company about what would happen when the general manager was no longer with them. Therefore, as far as the management team and employees were concerned, the sale had to a certain extent removed one of their main causes of anxiety. Now they could only wait and see what the new circumstances would bring.

This lack of leadership did not make things easy for Sarah. Her direct reports, the five heads of department, were used to their routine roles and were excellent managers. Yet over all the years they had been in the company, none of them had developed a sense of true leadership over the company project as a whole. Clearly, this way of working had enabled the company to be successful in the past, but Sarah felt it could not continue. It was necessary to change their longstanding routines. One thing she was quite clear about was that she was not going to be the sort of general manager the company had been used to.

When the company's president had given Sarah instructions about her new position, he said that her main role would be to assume a leadership style of her own to replace the style that had for decades depended exclusively on the previous general manager. At the time, Sarah had thought the president's comment sounded logical. But as the days went by, and she got to know the management team better, it began to dawn on her what the president had really meant. She realized this was clearly the company's main problem and that a solution would have to be found in just a few months.

Makon's Reporting System

The information prepared for Makon's Management Committee meetings was traditionally presented in a management report drawn up every month by the Administration and Finance Department. The report included a number of indicators such as operating results, detailed sales figures, cost deviation from budget, profit-margin ratios by product line, inventory-turnover ratios, accounts-receivable and accounts-payable ratios, and overall information on the factory's productivity indicators.

Since Sarah had taken charge of the company's general management a year earlier, the Management Committee began to study other information that was gradually added to the management report. Mike, the administration and finance manager, recalled how the company's reporting system had changed over that year:

> In the old days, the basic company data consisted of a management report that I prepared and distributed to all the members of the Management Committee. Based on these figures, decisions were made, and corrective actions established, particularly when there was a negative deviation from the budget. However, when Sarah joined the company, this situation started to change little by little. Sarah began to ask questions, showed great curiosity, and wanted to be informed about many issues that were not included in my report.
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> I recall that, just one month after joining the company, Sarah asked Juan, our production manager, about the statistics on faulty machines returned by customers. Juan had no idea what to say. He knew they had recently had more returns than normal, but didn't have the exact figure. Sarah was not at all surprised, but she explained that certain corporate issues were just as important as budget deviations and that we needed indicators and statistics to help us manage them. From that day onward, Juan set about gathering these data and working out the monthly returns figures.
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> In the same way, with one committee meeting after another, Sarah brought up new issues with the managers and requested more information and ratios. New subjects were gradually included in the Management Committee meetings such as delivery-date achievement rates, the number of orders delivered late each month, production-planning statistics, the number of customer complaints, absenteeism rates and market share.
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> Following Sarah's example, other managers, on their own initiative, began to present what they considered to be significant information on the company's progress. Anne, the human resources manager, decided to carry out a work-environment survey. While designing the survey, she asked the other managers what their greatest concerns were in terms of personnel. When she had made up the list of subjects (see **Exhibit 1**), she drafted a series of questions and had the entire workforce take the survey. And when she gave us the results, we were all surprised to see that there were, in fact, many areas for improvement and that the data provided information we had been entirely unaware of. Anne has prepared this same information for each department this year, thereby enabling the managers to analyze the data and draw up relevant action plans.
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> Marty, the sales manager, was very taken with the idea of questionnaires and he and Andy, the technical manager, prepared a customer-satisfaction survey. (See **Exhibit 2**.) The survey touched upon such aspects as the sales force's involvement and attentiveness, speed of response to problems, the efficiency of technical service and other questions relating to service quality. The survey was presented to 25% of the company's customers every three months, so that all customers had received the questionnaire by the end of the year.
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> Another aspect that greatly attracted my attention was Sarah's insistence on discussing safety and the environment at the committee meetings. It must have been about six months after she joined the company that Sarah began asking Juan to measure and establish energy-consumption statistics, the percentages of materials and waste that were recycled, accident rates and the number of innovations in safety. I was initially surprised by this insistence because these minor savings in energy and recycling only had a very small effect on the profit and loss account.